

**BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

Proceeding to Establish Guidelines)	
For an Intrastate Universal Service)	Docket No. 1997-239-C
Fund)	

**REBUTTAL TESTIMONY OF TALMAGE O. COX, III
FOR
UNITED TELEPHONE COMPANY OF THE CAROLINAS**

Filed September 15, 2004

1 **Q. Please state your name, business address, employer and current position.**

2 A. My name is Talmage O. Cox, III. My business address is 6450 Sprint Parkway,
3 Overland Park, KS 66251. I am employed as Senior Manager – Network Cost for
4 Sprint Corporation.

5
6 **Q. Are you the same Talmage O. Cox, III who submitted direct testimony on**
7 **behalf of Sprint?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Testimony?**

11 A. My rebuttal testimony will address the following areas related to Staff witness's
12 direct testimony filed September 8, 2004.

13 Barbara Crawford Direct Testimony

- 14 1. Land & Building Replacement Cost
15 2. Embedded Depreciation Expense

16 David Lacoste Direct Testimony

- 17 1. Depreciation Rates contained in a forward looking economic
18 cost study.

19
20 **Q. Please comment on the use of replacement cost related to land and building**
21 **assets utilized in Sprint's switched access cost study.**

22 A. Sprint's forward looking economic cost methodology appropriately utilizes
23 replacement cost associated with land and buildings. Consistent with the Total
24 Service Long Run Incremental Cost (TSLRIC) methodology we have utilized

1 forward looking investment data in the development of our cost results. Use of
2 embedded assets in the development of Sprint's forward looking economic cost of
3 switched access would be inconsistent with the TSLRIC methodology based on the
4 requirement that the study should utilize forward looking least cost investments
5 currently available.

6
7 **Q. Please comment on Ms. Crawford's findings that depreciation expense in**
8 **Sprint's filing does not tie to the Company's trial balance.**

9 A. Book depreciation expenses are not utilized in Sprint's switched access cost study
10 and have no impact on the results. Separate economic lives and salvage values for
11 switching investments are utilized to compute the depreciation component within
12 the Annual Charge Factor Module. The use of forward looking economic lives is
13 consistent with the forward looking economic costing methodology utilized by
14 Sprint. Use of embedded depreciation expenses would be inconsistent with the
15 TSLRIC methodology and should not be utilized in Sprint's switched access cost
16 study.

17
18 **Q. Why is it not appropriate to utilize embedded depreciation rates in a forward**
19 **looking economic cost study?**

20 A. Economic depreciation rates are appropriate for a forward looking economic cost
21 study. The forward looking economic depreciation rate is based on the economic life
22 of the least cost forward looking technology that can be placed in service today.
23 This is consistent with the Total Service Long Run Incremental Cost (TSLRIC)
24 methodology requirement to use least cost forward looking investment currently

1 available. Utilizing historical embedded depreciation rates would be inconsistent
2 with a methodology that requires the use of forward-looking versus historic costs.

3
4 **Q. Is Sprint requesting a change in its existing embedded depreciation rates with**
5 **this filing?**

6 A. No. The forward looking economic depreciation rate utilized in this filing is
7 associated only with the production of Sprint's TSLRIC estimates.

8
9 **Q. Please discuss the outcome if the Public Service Commission of South Carolina**
10 **orders Sprint to utilize an inappropriate embedded depreciation rate.**

11 A. If the Public Service Commission of South Carolina orders Sprint to utilize an
12 inappropriate embedded depreciation rate, the cost study results for intrastate
13 switched access service would produce a lower cost. The lower cost would then
14 increase the revenue loss, therefore increasing the amount for Universal Service
15 Funding required.

16
17 **Q. Does this conclude your rebuttal testimony?**

18 A. Yes.